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UNITED CIGAR-WHELAN STORES CORPORATION

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 1941

BOARD OF DIRECTORS

DAVID G. BAIRD

WALTER G. BAUMHOGGER

MICHEL A. BOUVIER

PAUL DUDLEY CHILDS

EDWARD A. LEROY, JR.

WALTER S. MACK, JR.

LESTER G. OTT

DALLAS S. TOWNSEND

LESTER F. WIDMANN

* * * *

OFFICERS

WALTER S. MACK, JR. ..... *Chairman of the Board*

WALTER G. BAUMHOGGER ..... *President and Chairman of the Executive Committee*

LESTER G. OTT ..... *Vice President*

EDWARD E. CODY ..... *Vice President and Treasurer*

MICHEL A. BOUVIER ..... *Vice President*

FRANK M. HEAD ..... *Vice President*

WILLARD H. WARE ..... *Vice President*

HARRY RUBENOFF ..... *Secretary and General Counsel*

PAUL OLSEN ..... *Asst. Secretary and Asst. Treasurer*

TRANSFER AGENTS

Preferred and Common Stock ..Registrar and Transfer Company, New York, N. Y.

Common Stock .....Registrar and Transfer Company, Jersey City, N. J.

Common Stock .....The Trusts and Guarantee Company, Limited, Toronto, Canada

REGISTRARS

Preferred Stock .....Central Hanover Bank & Trust Company, New York, N. Y.

Common Stock .....Bankers Trust Company, New York, N. Y.

Common Stock .....Commercial Trust Company of New Jersey, Jersey City, N. J.

Common Stock .....The Trusts and Guarantee Company, Limited, Toronto, Canada

To the Stockholders of

UNITED CIGAR-WHELAN STORES CORPORATION:

This report of your Corporation for the year ended December 31, 1941 includes the Consolidated Balance Sheet as of December 31, 1941, and Consolidated Statements of Profit and Loss and Surplus for the year, certified by Messrs. Price, Waterhouse & Co., independent public accountants, the scope of whose examination is indicated by their letter printed on page seven of this report.

Total Current Assets, at the end of the year, amounted to $9,104,044 and total Current Liabilities were $4,117,526.

Profit from Operations, etc., after all charges, including Depreciation and Amortization, and Interest on Bonds, and after provision for Federal taxes for the year 1941, amounted to $400,636 compared with $120,946 for the previous year.

In addition to Profit from Operations, etc., there were profits of $8,333 derived from the sale of mortgage receivable, and of $28,774 derived from purchase of Company's Five Per Cent Sinking Fund Bonds. Addition to Earned Surplus, for the year 1941, was, therefore, $437,743.

Earned Surplus, at December 31, 1941, amounted to $559,884 — compared with $122,141 at the beginning of the year.

It is proper to state, therefore, that considerable progress was made during the year 1941. The Management recognizes, however, that the earnings reported for the year are still substantially less than the return which the stockholders are reasonably entitled to expect on the amount of capital invested by them in the business.

Average Sales Volume, per store, increased sharply during 1941.

The number of Agencies increased.

During 1941 some of the unprofitable stores on which leases expired were closed, a number of stores were remodeled, and some new stores were opened.

In the Annual Report for the year ended December 31, 1940, and Special Report for Six Months ended June 30, 1941, you were advised of the strike in the Corporation's New York City Drug Stores, which commenced on February 1, 1941 and ended May 12, 1941, and were informed, also, as to the conditions on which this strike was terminated.

Despite the strike, and the fact that fewer stores were operated in 1941, sales volume was approximately the same as in the preceding year. (1941: $50,026,273 — 1940: $50,036,735).

At this writing it is difficult to foretell the effect of the full wartime economy upon future operations of your Corporation. There will, of course, be many complications. Among other things, there will be merchandise shortages. Some of the items heretofore sold by the Corporation will no longer be available. Others will be available in reduced quantities. For many of such items it is believed that eventually substitutes will be found. There are also items and lines of merchandise handled by the Corporation on which sales effort can and will be expanded. Certain non-controllable expenses, such as taxes, for example, will increase. However, this Corporation, handling as it does everyday necessities, reasonably priced, used by all classes of consumers, should be able to operate as successfully as is possible under wartime conditions.

Improvement in morale, esprit de corps, and efficiency of personnel has continued, and the Management wishes to thank employees for their effective support and splendid cooperation during the past year. The Corporation now has an organization of which its stockholders can justifiably be proud.

Your Management can think of no more appropriate way of ending this Annual Report than by again expressing to the Stockholders, in behalf of itself and the employees, the hope that it will continue to merit, by performance, the confidence and support of the stockholders.

Very truly yours,

WALTER G. BAUMHOGGER,

President.

March 7th, 1942.

UNITED CIGAR-WHELA

AND SUBSID

CONSOLIDATED BALANC

ASSETS

Current assets:			
Cash in banks, in transit and on hand		$1,193,486.30	
Notes and accounts receivable:			
Trade	$ 460,930.22		
Other	238,138.34		
	$ 699,068.56		
Less—Reserve for doubtful notes and accounts	26,060.31	673,008.25	
Merchandise inventories at cost or market whichever is lower		6,542,174.57	
Merchandise inventories with agents		695,375.00	
			$ 9,104,044.12
Miscellaneous investments and claims, less reserve			52,912.95
Fixed assets:			
Real estate owned in fee (see Note A)	$1,426,761.98		
Less—Reserve for depreciation on buildings	46,907.37	$1,379,854.61	
Furniture, fixtures and equipment (see Note B)	$4,103,617.09		
Less—Reserve for depreciation	2,492,305.83	1,611,311.26	
Improvements to leaseholds, less amortization		842,754.54	
Construction in progress		51,322.26	
			$ 3,885,242.67
Deferred charges:			
Unexpired insurance premiums		$ 90,956.97	
Prepaid rent and lease deposits		62,507.04	
Deferred taxes and prepaid licenses		125,243.25	
Supplies		121,307.92	
Miscellaneous		64,740.84	
			$ 464,756.02
			$13,506,955.76

NOTE A—Real estate owned in fee is carried at values based on an appraisal at June 30, 1936, by the then head of the Real Estate Department of the company, plus subsequent additions at cost.

NOTE B—Furniture, fixtures and equipment include approximately $1,465,000 on which the reserve for depreciation is equal to the asset.

STORES CORPORATION

Y COMPANIES

HEET—DECEMBER 31, 1941

LIABILITIES

Current liabilities:		
Notes payable to banks	$ 300,000.00	
Accounts payable	2,767,168.88	
Accrued taxes	406,352.73	
Accrued interest	39,592.75	
Other accrued liabilities	313,660.55	
Provision for Federal income taxes	87,564.80	
Agents' deposits, etc.	92,785.92	
Real estate mortgage obligations, due within one year	110,400.00	
		$ 4,117,525.63
Funded and mortgage debt:		
Five Per Cent Sinking Fund Bonds due October 1, 1952:		
Issued, less retired $2,820,500.00		
Less—In treasury 494,600.00	$2,325,900.00	
Real estate mortgage obligations (including $100,000 demand obligation)	841,500.00	
		$ 3,167,400.00
Capital stock and surplus:		
Cumulative Five Dollar Preferred Stock (see Note C):		
Authorized—67,000 shares without par value (entitled on dissolution or liquidation to, and redeemable at, $100 per share and accumulated dividends)		
Issuable under the Plan of Reorganization—63,650 shares (excluding 7 shares held in treasury) at stated value of $75 per share (see Note D)	$4,773,750.00	
Common stock:		
Authorized—6,000,000 shares of ten cents (10c) par value		
Issuable under the Plan of Reorganization—5,709,823 shares (excluding 12,101 shares held in treasury)	570,982.30	
Capital surplus (after deducting $736,444.22, deficit at June 30, 1939)	317,413.35	
Earned surplus since July 1, 1939 (see Note C)	559,884.48	
		$ 6,222,030.13
		$13,506,955.76

NOTE C—Cumulative dividends not accrued on the books or declared to December 31, 1941 amounted to $1,405,604.16 or $22.08½ per share.

NOTE D—At December 31, 1941 the excess of the liquidating value of the Cumulative Five Dollar Preferred Stock, including dividend arrears, over the stated value of such stock amounted to $2,996,854.16.

UNITED CIGAR-WHELAN STORES CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1941

PROFIT AND LOSS

Store and agency operations:		
Net sales after deducting stamp and sales taxes		$50,026,272.69
Cost of sales		38,119,979.27
		$11,906,293.42
Display advertising, commissions from public telephones, vending machines, etc.		1,501,346.26
Gross profit and other store operating income		$13,407,639.68
Store, depot and agency operating and general expenses, before depreciation and amortization		12,416,051.26
Profit from store and agency operations, before depreciation and amortization		$ 991,588.42
Other deductions, less other income:		
Loss from real estate operations, before depreciation and amortization	$ 21,030.25	
Other charges	68,236.71	
	$ 89,266.96	
Other income	47,104.13	42,162.83
		$ 949,425.59
Less: Depreciation and amortization		400,443.70
		$ 548,981.89
Less: Interest on Five Per Cent Sinking Fund Bonds		118,345.77
Profit before provision for Federal income taxes		$ 430,636.12
Provision for Federal normal income taxes		30,000.00
Net profit for the year		$ 400,636.12

EARNED SURPLUS SINCE JULY 1, 1939

Balance, December 31, 1940		$ 122,141.43
Add: Net profit for the year (shown above)	$400,636.12	
Profit derived from sale of mortgage receivable, representing excess of amount received over book value thereof	8,333.18	
Profit derived from purchase of Company's Five Per Cent Sinking Fund Bonds, representing excess of principal amount over cost thereof..	28,773.75	437,743.05
Balance, December 31, 1941		$ 559,884.48

NOTE: There was no change in capital surplus during the year ended December 31, 1941.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York, March 4th, 1942.

To the Board of Directors of

United Cigar-Whelan Stores Corporation:

We have examined the balance sheet of United Cigar-Whelan Stores Corporation and its subsidiary companies as of December 31, 1941 and the related statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and without making a detailed audit of the transactions have examined or tested their accounting records and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Our examination included the following:

Reconciliation of cash in banks as of December 31, 1941 as shown by the cash books with amounts shown by certificates obtained by us directly from depositaries. Cash on hand in the New York office, Chicago office and at the Brooklyn and San Francisco depots was counted on or about December 31, 1941. Cash in stores at December 31, 1941 could not be counted by us but we examined at least ten per cent of the store managers' cash reports as of December 31, 1941, which showed thereon the cash on hand representing undeposited receipts from sales and store change funds, if any, at that date. The amounts shown in these reports as undeposited receipts from sales at December 31, 1941 were traced to deposits shown in January 1942 bank statements.

Test circularization of notes and accounts receivable, store change funds and charge account funds, merchandise advances to agents, mortgages receivable, accounts payable and agents' deposits at November 30, 1941 or December 31, 1941.

Test checks of the accuracy of the physical inventories taken by your employees in the Brooklyn and San Francisco depots. We reviewed the method followed in taking store inventories and made test checks to determine that your home office store inventory records were adjusted to physical inventories of stores as such physical inventories were taken. We also made test checks to assure ourselves that the merchandise inventories as of December 31, 1941 were priced at cost or market, whichever was lower.

Test checks of the propriety of additions during the year to fixed assets.

Test checks to determine that deferred charges as of December 31, 1941 were proper charges to future operations.

Review of the method used in setting up accrued liabilities and determination that the amounts provided at December 31, 1941 were substantially adequate on the basis of information obtained by us during the examination.

Confirmation by letter from the Trustee of the Five Per Cent Sinking Fund Bonds and from the mortgagees and from the registrars and transfer agents with respect to the Five Per Cent Sinking Fund Bonds outstanding, real estate mortgage obligations and preferred and common stock, respectively.

Physical count or confirmation from custodian of the Five Per Cent Sinking Fund Bonds and preferred stock and common stock in the treasury of the company.

In our opinion, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of the company and its subsidiary companies at December 31, 1941 and the results of their operations for the year 1941 in conformity with generally accepted accounting principles applied by the companies on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

HOME OFFICE:

215 Fourth Avenue, New York, N. Y.

* * * *

WAREHOUSES:

Bush Terminal, Brooklyn, N. Y.

701 Bryant Street, San Francisco, Cal.

CIGARS
UNITED
DRUGS
WHELAN